

ARVON TOWNSHIP SCHOOL DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Arvon Township School District
Skanee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of and for the year then ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Arvon Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Arvon Township School District as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion analysis and budgetary comparison information on pages 6 through 10 and 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Arvon Township School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 17, 2005



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Arvon Township School District
Skanee, Michigan

We have audited the financial statements of Arvon Township School District as of and for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Arvon Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arvon Township School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 17, 2005

Arvon Township School District
Management's Discussion and Analysis
June 30, 2005

This section of Arvon Township School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund-the General Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole - District-Wide Financial Statements:

The District-Wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets of the District are reported in the Statement of Net Assets of the District-Wide Financial Statements.

Reporting the School District's Most Significant Funds - Fund Financial Statements:

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the School Service Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition.

Arvon Township School District
Management's Discussion and Analysis
June 30, 2005

Summary of Net Assets in Governmental Activities

	2005	2004
Assets		
Current and other assets	\$ 354,782	\$ 324,227
Capital assets - Net of accumulated depreciation	136,239	106,167
Total Assets	<u>\$ 491,021</u>	<u>\$ 430,394</u>
Liabilities		
Current liabilities	\$ 20,114	\$ 15,910
Total Liabilities	<u>20,114</u>	<u>15,910</u>
Net Assets		
Invested in property and equipment - net of related debt	136,239	106,167
Unrestricted	334,668	308,316
Total net assets	<u>470,907</u>	<u>414,484</u>
Total Liabilities and Net Assets	<u>\$ 491,021</u>	<u>\$ 430,394</u>

Results of Operations in Governmental Activities

	2005	2004
Revenues		
Program Revenue:		
Charges for services	\$ 1,245	\$ 939
Grants and contributions	46,322	43,468
General Revenue:		
Property taxes	256,690	240,356
Transfers	341	(379)
Other	23,954	3,958
Total Revenue	<u>328,552</u>	<u>288,342</u>
Functions/Program Expenses		
Instruction	166,845	124,287
Support services	95,993	123,237
School services	9,291	7,044
Total Expenses	<u>272,129</u>	<u>254,568</u>
Change in Net Assets	56,423	33,774
Net Assets - Beginning	414,484	380,710
Net Assets - Ending	<u>\$ 470,907</u>	<u>\$ 414,484</u>

Arvon Township School District
Management's Discussion and Analysis
June 30, 2005

Reconciliation of change in net assets

	<u>2005</u>	<u>2004</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 26,352	\$ 36,342
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation.		
Depreciation expense	(6,164)	(5,511)
Capital outlay	<u>36,236</u>	<u>2,942</u>
Change in Net Assets of Governmental Activities	<u>\$ 56,424</u>	<u>\$ 33,774</u>

Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of the change in fund balance of the governmental funds is as follows:

	<u>2005</u>	<u>2004</u>	<u>Percent Change in Fund</u>
	<u>Fund Balance</u>	<u>Fund Balance</u>	<u>Balance from Prior Year</u>
General	\$ 334,067	\$ 308,067	7.78%
Food Service	\$ 601	\$ 249	58.57%

General Fund - Fund Balance increased because the School District collected transportation fees during the fiscal year 2004-2005 in the amount of \$16,038. Property tax revenue also increased by \$16,344.

Food Service Fund - Fund Balance increased because federal revenue and food sales increased from prior year.

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2005**

Changes to Budget and Comparison to Actual Results

The original budget is required to be adopted before the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2005, the original budget was adopted on June 22, 2004. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2005 in the general fund are as follows:

Changes from Original Budget to Final Budget

Local Sources:	\$24,056 increase due to collection of transportation fees from L'Anse and Baraga, surplus from SET-SEG, and an increase in property taxes.
Federal Sources:	\$13,533 reduction because Arvon Schools spent and requested approximately \$12,500 less for their REAP grant than budgeted. The remaining monies will be utilized in 2005-06.
Instruction:	Decrease of \$13,865 due to salaries being lower than anticipated because a teacher went on maternity leave.
Added Needs:	Decrease of \$13,540 because approximately \$12,500 of REAP grant was not spent.
Support Services:	Change is minimal.
General Administration:	Change is minimal.
Operation & Maintenance:	Increase of \$20,562 due to the decisions of the Board to purchase a new boiler, perform new wiring and electrical work, and refinish classroom floors.
Pupil Transportation:	Change is minimal.

Variances between Final Budget and Actual Amounts

Revenue:

The variance for local sources was minimal while there was no variance for federal sources.

Expenses:

The variance for instruction, supporting services, general administration, operation & maintenance, and pupil transportation was minimal while there was no variance for added needs.

**Arvon Township School District
Management's Discussion and Analysis
June 30, 2005**

Analysis of Financial Position

During the fiscal year ended June 30, 2005, the District's net assets increased by \$36,236 for electrical services, window improvements, purchase of new boiler, purchase of new fence, and playground equipment.

The following is a summary of capital assets:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Land	\$ 1	\$ 0	\$ 0	\$ 1
Building and additions	3,775	0	0	3,775
Improvements other than building	93,172	27,413	0	120,585
Equipment and furniture	21,898	8,823	0	30,721
Total	<u>\$ 118,846</u>	<u>\$ 36,236</u>	<u>\$ 0</u>	<u>\$ 155,082</u>

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

Arvon Township School District levies 14 mills of local property taxes out of the 18 mills of non-homestead property taxes allowed. In 2004-2005, the amount collected for the school district was \$240,356. The district does not receive any state aid and therefore does not operate dependent upon the state foundation allowance.

The school serves 13 students in grades K-6. Middle and high school students are transported to L'Anse or Baraga Schools. In 2004-2005, the board charged a transportation fee of \$650 per student to each school district.

Other sources of revenue include state and federal grants. In 2004-2005, these grants include Title I, Title V, Title II, and REAP. These are awarded on an annual basis. In 2004-2005, Arvon Township School received \$46,235 in federal funds.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Arvon Township School District.

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmenta</u> <u>Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 342,757
Accounts receivable	<u>12,025</u>
TOTAL CURRENT ASSETS	<u>354,782</u>
NONCURRENT ASSETS:	
Capital assets	155,082
Less: accumulated depreciation	<u>(18,843)</u>
TOTAL NONCURRENT ASSETS	<u>136,239</u>
TOTAL ASSETS	<u><u>\$ 491,021</u></u>
LIABILITIES:	
Accounts payable	\$ 11,174
Accrued expenses	<u>8,940</u>
TOTAL LIABILITIES	<u>20,114</u>
NET ASSETS	
Invested in capital assets, net of related debt	136,239
Unreserved	<u>334,668</u>
TOTAL NET ASSETS	<u>470,907</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 491,021</u></u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

	<u>Program Revenues</u>			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 166,845	\$ -	\$ 45,546	\$ (121,299)
Support services	96,317	-	-	(96,317)
School service	9,291	1,245	776	(7,270)
Total Governmental Activities	<u>\$ 272,453</u>	<u>\$ 1,245</u>	<u>\$ 46,322</u>	<u>(224,886)</u>
General Revenues:				
Taxes				
Property taxes - general operations				256,690
Interest and investment earnings				4,023
Other				19,932
Transfers				<u>665</u>
Total general revenues, transfers, and special items				<u>281,310</u>
Change in Net Assets				56,424
Net Assets - Beginning				<u>414,483</u>
Net Assets - Ending				<u>\$ 470,907</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 342,156	\$ 601	\$ 342,757
Accounts receivable	<u>12,025</u>	<u>-</u>	<u>12,025</u>
 TOTAL ASSETS	 <u>\$ 354,181</u>	 <u>\$ 601</u>	 <u>\$ 354,782</u>
LIABILITIES:			
Accounts payable	\$ 11,174	\$ -	\$ 11,174
Accrued expenses	<u>8,940</u>	<u>-</u>	<u>8,940</u>
 TOTAL LIABILITIES	 <u>20,114</u>	 <u>-</u>	 <u>20,114</u>
FUND BALANCES:			
Unreserved	<u>334,067</u>	<u>601</u>	<u>334,668</u>
 TOTAL FUND BALANCES	 <u>334,067</u>	 <u>601</u>	 <u>334,668</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 354,181</u>	 <u>\$ 601</u>	 <u>354,782</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>136,239</u>
Net assets of governmental activities	<u>\$ 470,907</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2005

	General Fund	Other Nonmajor Governmental Funds	Totals
Revenues			
Local sources	\$ 280,645	\$ 1,245	\$ 281,890
State sources	-	28	28
Federal sources	45,546	748	46,294
	<hr/>	<hr/>	<hr/>
Total revenues	326,191	2,021	328,212
	<hr/>	<hr/>	<hr/>
Expenditures			
Instruction	160,681	-	160,681
Supporting services	132,553	-	132,553
School service	-	9,291	9,291
	<hr/>	<hr/>	<hr/>
Total expenditures	293,234	9,291	302,525
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	32,957	(7,270)	25,687
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)			
Operating transfers in	-	7,622	7,622
Operating transfers out	(7,622)	-	(7,622)
Incoming transfers - other districts	689	-	689
Other outgoing transfers	(24)	-	(24)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(6,957)	7,622	665
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	26,000	352	26,352
	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning of year	308,067	249	
	<hr/>	<hr/>	
Fund Balances - End of Year	\$ 334,067	\$ 601	
	<hr/>	<hr/>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation

30,072

Change in net assets of governmental activities

\$ 56,424

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	\$ 430
TOTAL ASSETS	<u>\$ 430</u>
 LIABILITIES	
Gift fund	\$ 77
Homer Elmblad Memorial	<u>353</u>
TOTAL LIABILITIES	<u>\$ 430</u>

The accompanying notes to financial statements are an integral part of this statement.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Arvon Township School District conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the more significant policies:

REPORTING ENTITY

The School District is governed by an elected six-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The District-Wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, & FINANCIAL STATEMENT PRESENTATION

District-Wide Statements - The District-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue are (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Likewise, general revenue includes all taxes and other local sources.

ARVON TOWNSHIP SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund.

The School District reports the following fiduciary funds:

Trust and Agency Fund - This fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The School District does not have any investments.

ARVON TOWNSHIP SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest are assessed by the collecting entity. School District property tax revenues are recognized when levied, to the extent that they result in current receivables.

The 2004 non-homestead and homestead taxable valuation of the District amounted to \$18,335,017 and \$8,377,503, respectfully. Ad valorem taxes of \$256,690 were levied for operating purposes (14.0 mills) based on non-homestead taxable valuation. These amounts are recorded as revenue on the District's records in and for the fiscal year ending June 30, 2005.

Inventory - The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Fixed Assets - Fixed assets, which include land, buildings, equipment, and site improvements are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and furniture are depreciated using the straight-line method over the following useful lives:

Buildings and additions:	20-50 years
Buses and other vehicles:	5-10 years
Furniture and other equipment:	5-10 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The School District has no reserved fund balance amount.

Comparative Data/Reclassifications - Comparative data is included in the School District's financial statements.

ARVON TOWNSHIP SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS – June 30, 2005****NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****BUDGETARY DATA**

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to July 1, the School District's Superintendent submits to the Board of Education a proposed budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted at a regular meeting by Board of Education approval.
4. Any revisions to the budgeted amounts must be approved by the Board of Education.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP.
6. Budgeted amounts presented in the financial statements are as originally adopted, or as amended by the Board of Education.
7. Budget appropriations lapse at the end of the fiscal year.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - BUDGETING AND ACCOUNTING

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Description</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund:			
Instructional staff	\$112,718	\$115,135	(\$2,417)
Operation & Maintenance	\$54,132	\$54,912	(\$780)

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE C - CASH

CASH DEPOSITS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	<u>\$ 342,757</u>	<u>\$ 430</u>	<u>\$ 343,187</u>

At June 30, 2005, the book value of the School District's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$343,187 with a corresponding bank balance of \$356,597. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$280,430 representing approximately 79% of the District's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$280,430 was insured and \$76,167 was neither insured or collateralized.

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/04	Additions	Subtractions and Adjustments	Balance 06/30/05
Land	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1</u>
Fixed assets being depreciated:				
Building and additions	3,775	0	0	3,775
Improvements other than building	93,172	27,413	0	120,585
Equipment and furniture	<u>21,898</u>	<u>8,823</u>	<u>0</u>	<u>30,721</u>
Subtotal	<u>118,845</u>	<u>36,236</u>	<u>0</u>	<u>155,081</u>
Accumulated depreciation:				
Building and additions	3,775	0	0	3,775
Improvements other than building	3,584	1,887	0	5,471
Equipment and furniture	<u>5,321</u>	<u>4,276</u>	<u>0</u>	<u>9,597</u>
Subtotal	<u>12,680</u>	<u>6,163</u>	<u>0</u>	<u>18,843</u>
Net capital assets being depreciated	<u>106,165</u>	<u>30,073</u>	<u>0</u>	<u>136,238</u>
Net capital assets	<u>\$ 106,166</u>	<u>\$ 30,073</u>	<u>\$ 0</u>	<u>\$ 136,239</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	<u>\$ 6,164</u>

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE E - INTER-FUND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund transfers as of June 30, 2005 are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
School Service	<u>\$ 7,622</u>	General	<u>\$ 7,622</u>

NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or after attaining age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 12.99% of covered compensation to the Plan through September 30, 2004 and 14.87% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$14,960 which consisted of \$11,889 from the District and \$3,072 from employees electing the MIP option. These represent approximately 14.59% and 3.77% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$81,455. The District's total payroll was approximately \$92,531.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE F - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

in accumulating sufficient assets to pay benefits when due and make comparisons among MPSERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$36 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 1.24%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2005 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2004 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

NOTE G - STATE FOUNDATION REVENUE

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 14 mills for non-homestead property taxes. The State revenue is recognized during the foundation period (currently the fiscal year).

2004-05 Foundation		\$ 7,936.00
Less Local Support:		
Non-Homestead Tax Value	\$ 18,335,017	
Multiplied by mills	14	
Total Local Support	256,690	
Divided by General Education K-12 membership	10.75	
Calculated Local Support		(23,878.16)
2004-05 Foundation Grant Allowance Per Pupil		<u>\$ (15,942.16)</u>

The School District is out of the formula, therefore, they receive no state aid.

ARVON TOWNSHIP SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE H - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances as follows:

Total current payments per R7120	\$ 31,635
Less prior year accounts receivables:	
Title I	(1,499)
Title IIA	(2,095)
Title V	(324)
REAP Grant	18,577
Total Federal Financial Assistance	<u>\$ 46,294</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2005 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE I - CONTINGENT LIABILITIES

Risk Pool

Arvon Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Arvon Township School District joined together with other school districts currently operating a common risk management and insurance program. Arvon Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Arvon Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments. The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2005, which can be obtained through the school district.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 256,565	\$ 280,621	\$ 280,645	\$ 24
Federal sources	59,768	46,235	45,546	(689)
TOTAL REVENUE	316,333	326,856	326,191	(665)
EXPENDITURES:				
Instruction	185,669	158,264	160,681	(2,417)
Supporting services	118,132	134,013	132,553	1,460
TOTAL EXPENDITURES	303,801	292,277	293,234	(957)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,532	34,579	32,957	(1,622)
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other districts	-	-	689	689
Operating transfers out	(11,525)	(7,622)	(7,622)	-
Other outgoing transfers	-	(750)	(24)	726
Total other financing sources (uses)	(11,525)	(8,372)	(6,957)	1,415
NET CHANGE IN FUND BALANCE	1,007	26,207	26,000	(207)
FUND BALANCE - BEGINNING OF YEAR	291,106	308,067	308,067	-
FUND BALANCE - END OF YEAR	\$ 292,113	\$ 334,274	\$ 334,067	\$ (632)

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes	\$ 256,690	\$ 240,356
Other local sources:		
Investment revenue	4,023	3,869
Miscellaneous	<u>19,932</u>	<u>91</u>
Total other local sources	<u>23,955</u>	<u>3,960</u>
Total local sources	<u>280,645</u>	<u>244,316</u>
Federal sources:		
REAP	18,577	10,165
School renovation	-	11,310
Title I	22,574	15,027
Title V	212	324
Class size reduction - Title IIA	<u>4,183</u>	<u>5,990</u>
Total federal sources	<u>45,546</u>	<u>42,816</u>
TOTAL REVENUES	<u>326,191</u>	<u>287,132</u>
EXPENDITURES:		
Instruction:		
Basic program:		
Elementary School	115,135	87,271
Added needs:		
Compensatory education	<u>45,546</u>	<u>31,507</u>
Total instruction	<u>160,681</u>	<u>118,778</u>
Supporting Services:		
Library	518	40
Board of education	11,842	14,659
Business-fiscal services	11,042	10,516
Operation and maintenance	54,912	42,179
Pupil transportation	<u>54,239</u>	<u>59,831</u>
Total supporting services	<u>132,553</u>	<u>127,225</u>
TOTAL EXPENDITURES	<u>293,234</u>	<u>246,003</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>32,957</u>	<u>41,129</u>

ARVON TOWNSHIP SCHOOL DISTRICT
GENERAL FUND
DETAIL STATEMENTS OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OTHER FINANCING SOURCES (USES):		
Incoming transfers - other districts	689	682
Operating transfer out	(7,622)	(5,453)
Other outgoing transfers	<u>(24)</u>	<u>(16)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,957)</u>	<u>(4,787)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	26,000	36,342
FUND BALANCE, BEGINNING OF YEAR	<u>308,067</u>	<u>271,725</u>
FUND BALANCE, END OF YEAR	<u>\$ 334,067</u>	<u>\$ 308,067</u>

ARVON TOWNSHIP SCHOOL DISTRICT
TRUST AND AGENCY
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
June 30, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash	\$ 166	\$ 645	\$ 381	\$ 430
TOTAL ASSETS	<u>\$ 166</u>	<u>\$ 645</u>	<u>\$ 381</u>	<u>\$ 430</u>
LIABILITIES				
Due to gift fund	\$ 166	\$ 200	\$ 289	\$ 77
Due to Homer Elmlad memorial fund	0	445	92	353
TOTAL LIABILITIES	<u>\$ 166</u>	<u>\$ 645</u>	<u>\$ 381</u>	<u>\$ 430</u>



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Arvon Township School District
Skanee, Michigan

In connection with our audit of the financial statements of Arvon Township School District, as of and for the year ended June 30, 2005, the following concerns regarding the accounting records, procedures, and the internal control structure came to our attention and are presented for your consideration.

Insured Deposits

We noted approximately seventy-nine (79%) of the School's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to decrease the risk of loss to the District.

Budget Over Expenditures

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

<u>Description</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund:			
Instructional Staff	\$112,718	\$115,135	(\$2,417)
Operation & Maintenance	\$54,132	\$54,912	(\$780)

We recommend that timely revisions be made to the budget appropriations so that these over expenditures do not occur in the future.

We would like to thank the administration staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukhila, CPA, PC

August 17, 2005

Certified Public Accountants